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E.O. 12958: DECL: TERMINATION OF ALL EXPORT CONTROLS TO CHINA

TAGS: BEXP CH ETRD ETTC PREL

SUBJECT: XIAN AIRCRAFT CORPORATION VISITED BY EMBASSY
EXPORT CONTROL OFFICER

REF: A. REFTEL A: BEIJING 10955 (06/28/04)

1B. REFTEL B: USDOC 1385 (04/0-2/04)

Classified By: Jeannette L. Chu, Export Control Officer, pursuant to E.

1O. 12598

for reasons 1.5(a), (b), (d), (e), (g), (h)

SUMMARY

11. (S) Embassy Export Control Officer (ECO) visited Xian Aircraft Industry (Group) Ltd., a/k/a Xian Aircraft Corporation (XAC) on November 24, 2006, at the invitation of the Boeing Corporation (STRICTLY PROTECT) and under the direction of the Bureau of Industry and Security (BIS). The purpose of this informational site visit was to observe how certain licensed machine tools are being used and to assess the feasibility of licensing additional items and technology to support production of composite aircraft parts for Boeing. ECO observed licensed machine tools being used to manufacture parts for domestic programs including military aircraft.

BACKGROUND

12. (S) On June 11, 2004, the former ECO conducted a Post-Shipment Verification (PSV) end-use visit at XAC relative to Cincinnati Machine U5 Universal Five-Axis Bridge Type Machining Center licensed under D2956068 (see REFTEL A). During this PSV the former ECO found that XAC was using this U5 Machining Center to make parts for a domestic Chinese aircraft known as the Y-7, which has both civilian and military applications.

13. (S) On August 4, 2006, ECO visited XAC at the invitation of the Boeing Corporation. ECO asked to see the U5 Machining Center than had been the subject of a PSV and was told by an unidentified XAC official that this machine tool was

being used to manufacture a component for Airbus. Several minutes later, another unidentified XAC official stated that this machine tool is only used to make Boeing components. Upon further questioning by ECO, both XAC officials admitted that they had no idea what components were being made on this equipment.

14. (S) The following machine tools have been licensed for use at XAC:

D313734: Cincinnati 2-rail Type Spar Mill
D295068: Cincinnati U5 Universal 5-axis Machining Center
D288230: Cincinnati U5 Universal 5-axis Machining Center

License conditions for all three machine tools state that these devices were licensed for export in support of a Boeing master contract and can only be used to manufacture commercial aircraft components as described in the license applications (See REFTEL B).

15. (S) XAC has a long history of producing components for foreign aircraft projects including the Boeing 737 and 747, Airbus A319, and ATR. XAC also produces components for domestic civilian commercial aircraft including the MA60 transport aircraft and the ARJ21 domestic regional jet. XAC is currently hoping to be awarded a contract from Boeing to produce wing flaps for the Boeing 737. These parts would be made from composite materials and Boeing is considering applying for a U.S. export license to transfer technology relating to composite manufacturing in order to support this activity.

FABRICATION TOUR

16. (S) ECO toured three fabrication areas including two numerically controlled (NC) machine shops and the composite fabrication area. ECO was accompanied by two Boeing officials, Steve Morse, Boeing on-site manager, and Kevin McLaughlin, China-wide Quality Assurance Manager, throughout this tour. Wang Shaoliang, a XAC official working exclusively on Boeing programs, also participated in leading this tour by serving as the principal interlocutor with XAC employees in each production area.

17. (S) The NC machine shop is known as "Shop 30" and is comprised of two buildings, No. 332 and No. 124. XAC also does some machining in Shop 32. Building 332 is known as the new NC machine shop. ECO observed several machine tools including a new Cincinnati RT Spar Mill (serial number OD00B0103006), which XAC officials stated had arrived in September 2005. According to WANG Shaoliang and other XAC officials, this machine tool is still in the process of being installed and qualified, and XAC expects to take full possession of this device in February 2007. XAC officials stated that they planned to use this machine tool to make vertical fin spar cords for the Boeing 737.

¶ 8. (S) ECO observed three Cincinnati FTV 850 3-axis milling centers.

XAC officials claimed that these machine tools had been imported from the United Kingdom. XAC officials also stated that these milling centers are used for the MA60, ARJ21 and 737 invar rib, and ECO observed work

orders for both Boeing 737 and domestic aircraft parts at one machine.

ECO also observed titanium and aluminum shavings on these machines and aluminum blocks marked "H-6", handwritten in what appeared to be either chalk or grease pencil, on the ends of the blocks. (COMMENT: Boeing Site

Manager Steve Morse made the observation that "H-6" marking may refer to

a Chinese bomber. XAC officials did not respond to specific questions

concerning the end-use of these blocks. According to Janes, Xian Aircraft

Industries Group produces the Hongzhaji-6 (H-6) Strategic

bomber, a copy

of the Tu-16 'Badger'.)

¶ 9. (S) ECO observed a Cincinnati U5 Universal 5-axis

Machining Center

(serial number QD0B01020001). ECO observed a stainless steel component

being machined and was told by XAC and Boeing official Kevin McLaughlin

that it appeared to be a landing strut for the MA60. The XAC employee

operating this machining center stated that this machine tool, which was

received several years ago, had only been used a few times to make parts

for Boeing and was primarily being used to make parts for the Y-7 and

MA60. (COMMENT: Per REFTEL B, license conditions for D295068

specifically

state that this machine tool was exported for the purpose of supporting

Boeing master program contract VZ-215240-8989N and making components for

the MA60, ATR, and Airbus A320 and A340 only.) The XAC employee operating

this machining center also informed ECO that the spindle needed to be

replaced and that the on-site Cincinnati representative is exploring this

because this part cannot be repaired. ECO observed tooling placed on the

floor immediately adjacent to this machine tool and noted that the

designations "JH2" and "H-7" appeared on labels affixed to some of the

tools. In response to repeated questioning by ECO, WANG Shaoliang conferred

with XAC officials and responded on their behalf stating that these tools

were being used for military programs. (According to Janes, Xian Aircraft

Industrial Group has a role in the production of China's H-7 multi-role

combat aircraft.)

¶ 10. (S) ECO observed RAMMATIC and SNK HPS machine tools. XAC officials

including WANG Shaoliang stated that these machine tools are used for

both Boeing and domestic programs including military projects. ECO was

refused closer access to several machines where components for domestic

programs were being made.

¶11. (S) ECO toured Shop 30, Building 124, which XAC officials described as the old NC machine shop. ECO observed several domestically manufactured machine tools including one marked "NDRC", which ECO understands to refer to the National Development and Reform Commission. ECO observed a Cincinnati Dual Spar machine and was told by XAC officials that this machine tool is being used to make Boeing 737 invar spars, ARJ parts and rough milling for Airbus wing spars.

¶12. (S) ECO observed a Cincinnati U5 Universal 5-axis Machining Center (serial number QC00B0101001, XAC inventory #2240073). Wang Shaoliang and other XAC employees stated that this machine is currently making parts for Airbus. However, ECO observed aluminum panels roughly 10 meters by one meter by 55 mm in dimension marked "Y-7" handwritten in chalk or grease pencil immediately adjacent to this machine. Boeing officials Steve Morse and Kevin McLaughlin further questioned XAC employees and examined the work order documentation on top of these panels. ECO was not permitted to handle or review any work order booklets in any of the fabrication areas. Steve Morse advised ECO that based upon his review of the work order booklet, this machine is being used to fabricate components for the Y-7, which is a dual-use domestic aircraft.
(COMMENT: ECO believes this machine tool to be licensed under D288230 with conditions for use on specific foreign and domestic programs that do not include the Y-7.) In response to specific questioning by ECO, Steve Morse and Kevin McLaughlin tried to determine the feasibility of reconstructing records to document the specific usage of this machine tool however XAC employees claimed that insufficient records existed to make this possible.

COMPOSITE TOUR

¶13. (S) ECO and Boeing officials Steve Morse and Kevin McLaughlin, accompanied by Wang Shaoliang toured Building 48, which is used exclusively for composite lay-up and manufacturing only. This was ECO's third visit to the composite manufacturing area at XAC. ECO observed signs for the office area for military and commercial programs next to one another in a corridor just outside the main factory floor. ECO observed numerous composite parts in various stages of manufacturing and was told by XAC employees that all were MA60 components. ECO also observed laser cutting in the clean room, hand lay-up and bagging areas.

¶14. (S) ECO also observed an autoclave that appeared to be in operation but XAC employees refused to disclose what components were inside the autoclave. ECO observed several round, slightly conical objects in the

autoclave area, which XAC employees described as satellite covers.

¶15. (S) ECO toured the cold storage room in the composite manufacturing facility and observed a sign on the door listing different models of aircraft and the types of material being stored. During a previous visit to XAC on August 6, 2006, ECO had observed a different sign, "Military Materials" (in English) on this cold storage room door. On November 24, 2006, the list of projects and corresponding materials included Airbus, Boeing, MA60, Y-7 and F-6. According to Janes, the SHENYANG (MIKOYAN) J-6 (F-6) is basically a MiG-19 fighter built in China. XAC officials refused to answer questions regarding domestic programs that required the use of composite materials.

¶16. (S) During a previous visit to XAC on August 6, 2006, ECO had observed what appeared to be fuselage pieces and wing-to-body fairings made from composite materials. An XAC official, TIAN Wei, Director of Technology (STRICTLY PROTECT), originally stated that this was a "domestic project", however, Michael Wu (STRICTLY PROTECT), a Boeing employee stationed at XAC later told ECO that these were parts for a B-7 fighter jet. ECO also observed tooling that TIAN Wei claimed was for the MA60 but that ECO observed was marked "Y7111".

CONCLUSION

¶17. (S) ECO met with HAN Yichu, Vice Chief Engineer/Vice Director (STRICTLY PROTECT) on August 6 and November 24, 2006. HAN Yichu told ECO that XAC has been involved in the development and production of at least twenty types of aircraft including the following military projects: B7, Y8, FBC and Y7-208. Additional domestic aircraft projects include the Y7, Y7-150, and MA60. Subcontracts for foreign cooperation projects including Boeing make up only 4% of XAC's product mix. HAN Yichu and other company officials describe XAC as a combined military, civilian and foreign production facility. All assembly

for foreign aircraft component projects has been consolidated in a relatively new purpose-built facility; however, fabrication of individual parts is spread throughout XAC and brought to the assembly plant. In the future, XAC looks to develop indigenous manufacturing technologies and become a manufacturing base for trunkliner wings, fuselage, fin stabilizers and doors.

¶18. (S) COMMENT: ECO has observed extensive co-mingling of domestic, civilian and military programs at XAC, particularly in fabrication areas, which are outside the immediate observation and control of Boeing managers. Based upon observations made on November 24, 2006, ECO believes that U.S. export licensed machine tools continue to be used to manufacture components for Chinese domestic aircraft programs including military

projects.

¶19. (S) On March 31, 2007, ECO met with representatives from the Boeing Corporation, at their request, to discuss Boeing's plans for China. Richard Choi and Paul Safstrom from Boeing's Global Supply department stated that senior Boeing executives recently met with President Gao from XAC, a Vice Minister at the National Development and Reform Commission, and appropriate senior-level officials from AVIC-I. As a result, XAC, with Boeing's assistance, is developing and implementing an internal compliance program in order to ensure that U.S. export licensed machine tools and technology are utilized and safeguarded appropriately. XAC will place signage on licensed machine tools warning that this equipment is only to be used for commercial projects. XAC will also appoint an official with export compliance responsibilities. Boeing Commercial Aircraft representative Kenneth Yata stated that AVIC-I is moving in the direction of fully segregating military and commercial programs, and that President Gao at XAC now understands the need to comply with U.S. export license conditions. However, Boeing officials also acknowledged that the fabrication areas at XAC serve both military and commercial programs, presenting challenges for segregation particularly since XAC officials needed to be better informed about compliance with U.S. export license conditions. Nonetheless, Paul Safstrom and Richard Choi maintained that Boeing intends to move forward with plans to put a contract for 737 wing flaps at XAC and to seek U.S. export licenses to support this activity.

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